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JAMES G. MCDONALD, *Chairman;* GEORGE M. LAMONTE, *Treasurer;* CHRISTINA MERRIMAN, *Secretary* Subscription Rates on Request.

The French Financial Situation

THE recent collapse of the Briand Cabinet and the simultaneous fall of the franc to the low point of 2.72¾ cents to the dollar (June 15) marks the failure of another French Ministry to deal adequately with the financial crisis. The financial problem has been an outstanding issue in France ever since the end of the war and within the last two years it has reached such a critical stage as to overshadow every other consideration of national importance. Cabinet has followed cabinet and finance minister has succeeded finance minister in what J. M. Keynes has referred to as the "Sisyphean task of rolling budgets up Parliament Hill," M. Raoul Péret, whose resignation from the difficult post of Minister of Finance precipitated the fall of the ninth Briand Cabinet, is the seventh in the procession of French Ministers of Finance who have been compelled to resign their portfolios within the last eighteen months. M. Clémentel, De Monzie, Caillaux, Painlevé, Loucheur, Doumer, and finally Péret have followed in rapid succession, and each has encountered a more acute financial problem than that of his immediate predecessor.

Until the recent report of the Experts' Committee the most striking feature of the French situation has been the apparent absence of any coherent or comprehensive scheme for stabilizing the exchange and restoring financial equilibrium. Whether the efforts of the tenth Briand cabinet will be more successful than preceding ones is a matter of pure conjecture. The appointment of M. Caillaux to the finance portfolio and the granting to him of special powers on the Council of Ministers may indicate that a campaign is being formulated in an effort to carry "the battle to save the franc" to a successful conclusion. M. Caillaux, in spite of his great personal unpopularity in some quarters and his forced resignation from the cabinet in 1925, still retains much of his former reputation as the "wizard" who "wields a magic wand" over the difficult and disordered problems of French public finance. The first official act of the new Finance Minister in removing M. Robineau from the governorship of the Bank of France and his recent speech asking for a delegation of power in order to carry out a program for the stabilization of the ex-

change, appears to be the first step in a positive policy. It is doubtful, however, if Caillaux can bring the French Chamber to face the true seriousness of the financial problem and win support for the drastic measures that will be demanded of any plan, if it is to be effective.

OUTSTANDING FACTORS IN THE FINANCIAL PROBLEM

The outstanding factors in the French financial problem may be briefly summarized as follows:

1. A total internal debt amounting roughly at the present time to 300 billion paper francs. If stated in terms of a 3 cent gold parity at which it has been suggested that the franc be stabilized, this would equal approximately 45 billion gold francs. In addition the French government has a total foreign "political" debt of more than 8 billion dollars. Interest on the public debt and pension charges have placed a heavy burden upon the annual revenues of the French government. These fixed charges consume about 53 per cent of the national revenues.

2. The consistent failure of the government to balance its revenues against its expenditures. Interest and pension charges along with expenditures for rehabilitation, the maintenance of the military and the other expenditures of the government has made it impossible for the government to balance its revenues against its expenditures and each year it has incurred a large deficit to add to the increasing total of the public debt.

3. The inflation of the currency by large issues of notes by the Bank of France. The extent of the bank note inflation is seen in the increase in the total amount of bank notes issued from about 10 billion francs in 1914 to more than 53 billion francs in June 9, 1926. This has caused a shrinkage in the ratio of the gold reserve from more than 70 per cent in 1913 to a negligible ratio at the present time. Certain observers, however, point out that because of the increase in the amount of gold and specie held by the Bank of France to 4,584,000,000 francs, the metallic reserve would amount to more than 55 per cent of the note issue, if the franc were stabilized at a 3 cent gold parity.

4. The fall in the exchange value of the franc from its pre-war parity of 19.3 cents to an average rate for the month of June of 2.9 cents to the dollar.

5. A rise in the level of wholesale prices of approximately 730 per cent. since 1913.

THE FRENCH ECONOMIC PARADOX

While the franc has fallen to new low points and one distraught finance minister after another has failed to balance the budget, French business and industrial conditions have been exceedingly prosperous. Although the French government has each year accumulated a huge deficit to add to the already staggering load of public indebtedness and has been compelled to resort to bank note inflation in order to meet its current expenses, French industry has increased its production above the pre-war level and French business has enjoyed a greater volume of business than in 1913. From an industrial and business point of view, France is apparently the most prosperous nation in Europe. While England has been suffering from a protracted period of unemployment and Germany has been undergoing a severe industrial and business depression, French workers have been fully employed and French business men and industrialists have been enjoying high profits. The devastated areas have practically been restored and the newly acquired resources of Alsace and Lorraine are being rapidly developed. For the past two years France has had a favorable balance of international trade for the first time in her recent history. In the production of coal, iron, steel, and metal products, textiles, silk, leather, and in building, France has surpassed the 1913 volume of production. Although agricultural production is slightly below the pre-war level, exchange and currency conditions have operated in such a manner as to bring high prices and unusual prosperity to the French peasants. This prosperity has enabled the peasants to pay off a large part of their mortgage indebtedness.

This paradox of inflation has placed the French politician between the horns of a baffling economic dilemma. If an attempt were to be made sharply to restrict the public and private credit foundation upon which the

present business prosperity is based, either by a high rise in discount rates or by an outright prohibition of loans, France would doubtless be plunged into a business depression which would not only cause serious hardship to French business and industry but would also dry up many of the sources of revenue through taxation. If, on the other hand, inflation is allowed to continue unchecked, prices will continue to rise, the franc will continue to fall, and there will be little hope of financial rehabilitation short of a repetition of the German débâcle. Whichever way the French Cabinet may turn, it is confronted on the one hand by the menace of further inflation, and on the other by the dangers of business depression. It is doubtful if French politicians have been fully aware of the economic consequences of these alternatives. All leaders agree that a gold parity must be fixed, but some are so optimistic as to hope for a return to the pre-war value, while the more realistic plan in terms of a 3 to 6 cent franc.

THE FALL OF THE FRANC

The growing seriousness of the French financial situation is roughly mirrored in the falling exchange value of the franc. From its pre-war parity of 19.3 cents to the dollar, around which the franc consistently fluctuated for several decades prior to the war, the franc has fallen until on July 8 of the present year it touched the unprecedented low point of 2.51 cents to the dollar.

For the period of the war the franc was relatively stable due to the "pegging" operations of the French government. By the use of funds borrowed from England and later from the United States the French government created an artificial demand for francs in the foreign exchange markets. The lowest point reached by the franc for the period of the war was 16.5 cents to the dollar, but when the French government ceased its "pegging" operations in March, 1919, the franc fell precipitously to less than 6 cents in April, 1920. For the next two years the franc fluctuated between 9 cents and 6 cents. In the early months of 1924 the franc reached a new low point of slightly over 4 cents but recovered sharply when the French government again resumed its market operations. Throughout 1925 the exchange rate fluctuated around 5 cents for the early part of the year and around 4.5 cents for the latter part of that period.

THE PUBLIC DEBT

At the very center of the French financial problem is the problem of the public debt. Even before the war, the public debt presented a problem of serious importance. The pre-war debt was entirely a domestic debt, however, representing the borrowings of the government from its own citizens, and its wide distribution among all classes of the French people made its burden less onerous than it might otherwise have been. The total amount of the public debt in 1913 was 33,637,000,000 francs. The Italian and Crimean Wars, the attempts by France to found an empire in Mexico, the Franco-Prussian War, the expensive internal improvements in the last quarter of the 19th century and the building of the French Colonial Empire in Africa, are all in part responsible for the large amount of public indebtedness with which France entered the last war.

The amount of the French public indebtedness in 1913 was small, however, in comparison with the huge accumulations of debt which have been built up within the last twelve years. According to Mr. H. G. Moulton and Cleona Lewis of the Institute of Economics, the French government during the War had annual deficits ranging from 6,175,000,000 paper francs in 1914 too nearly 49,858,000,000 paper francs in 1918. The total of these annual deficits for the period from 1914 to 1918 amounted to 144,414,000,000 paper francs. The expense of reconstructing the devastated areas after the War and the heavy charges upon the public revenues for pensions, interest charges on the debt, rehabilitation and the maintenance of the military establishment have continued to increase the burden of indebtedness. In the post-war period from 1919 to 1924, the annual deficits, according to Mr. Moulton and Miss Lewis, have ranged from 42,600,000,000 francs in 1919 to 16,500,000,000 francs in 1924. The total of these annual deficits for the period from 1919 to 1924 amounted to the huge sum of 171,800,000,000 paper francs.

THE BUDGETS OF 1925-26

Because of the confusing budget practices of the French government it is difficult to determine the balance between revenues and expenditures. Within the past three years, it has been the habit of the Finance Minister to inform the country that at last the budget had been put in balance, but when all the returns are in the figures show a heavy deficit. In 1924, for example, it was freely stated and apparently generally believed that revenues and expenditures had been balanced. The final figures, however, show a deficit of approximately 16 billion paper francs. Rough estimates for the year 1925 would place the excess of expenditures over revenues at from 3 billion to 12 billion francs. After a careful analysis of the French budget for 1926, Miss Lewis of the Institute of Economics concludes that, "An actual balancing of receipts and expenditures in 1926 is far from probable."

Other observers of the French financial situation believe that except for renewals of the floating debt the budget this year will be genuinely balanced.

Mr. B. M. Anderson, Economist for the Chase National Bank, is also inclined to take a more optimistic view of the situation. His statement follows:

"France has had an appalling unbalance in her budget. Expenditures have exceeded taxes and other revenues enormously since the war, and the public debt has grown by leaps and bounds. There has been a great deal of confusion in the figures, due to the existence not only of "the budget" but also of "the special budget, recoverable" (from Germany), the "special budget, not recoverable," the "annexed budgets," and the "special accounts." When all these are taken into account, the figures have run about as follows:

(in millions of francs)

	1919	1920	1921
Expenditures .	54,956	57,501	46,492
Revenues	8.221	15,469	18,511
Deficit ..	46,735	42,032	27,981

	1922	1923	1924	1925
Expenditures .	37,929	37,944	41,214	36,000?
Revenues	19,014	21,307	27,083	31,700
Deficit ..	18,915	16,637	14,131	4,900?

It will be seen from the foregoing that France has made a real fiscal effort in 1924 and 1925. Expenditures have been held in check, and revenues have been sharply increased. The deficit in 1925 may be smaller or larger than our table shows, as I am not sure of the expenditure figure, but it is certainly a much smaller deficit than any which has preceded it since the war."

AMOUNT OF FRENCH PUBLIC DEBT

Mr. J. R. Cahill, Commercial Counsellor to His Majesty's Embassy in Paris, in his Report to the British government, "Economic and Industrial Conditions in France," estimates the total national indebtedness of France at "not less than 465 billion francs" at the end of 1925. Of this amount approximately 300 billion paper francs represents the internal debt. In December, 1925, the internal debt was 290,883,000,000 paper francs. The entire foreign debt at the present time amounts to $8,583,000,000. The total foreign debt is made up of a "political" debt of $8,027,000,000 and a "commercial" debt of $556,000,000.

INTEREST CHARGES

The huge amount of the capitalized public debt places a heavy annual burden in the form of interest charges upon the revenues of the French government. According to Mr. Moulton and Miss Lewis, in 1924 approximately 80 per cent of the total receipts from taxation were absorbed in interest and pension charges. The amount that the government paid in interest alone amounted to 16,500,000,000 francs out of a total revenue, other than borrowing, of 29 billion francs and nothing was paid in interest on a large part of the foreign obligations. The proportion of the national revenue from sources other than borrowing, which was paid in the years 1919 to 1924 in the form of interest and pension charges is revealed in the following table:*

Year.	*Revenues from sources other than borrowing.*	*Interest and pension payments.*	*Per cent of interest and pension charges to total revenues from sources other than borrowing.*
	(In billions of paper francs)		
1919........	11.6	8.1	70
1920........	20.1	15.2	75
1921........	23.1	15.5	65
1922........	24.1	18.6	75
1923........	23.8	17.8	74
1924........	29.0	20.0	70

*Compiled from tables in Moulton and Lewis, "The French Debt Problem."

GOVERNMENT BORROWING

In spite of the continued increase in the revenues from taxation, the income from this source has been entirely inadequate to meet the needs of the French government and borrowing has been resorted to in order to make up the deficits. The forms that these internal borrowings have taken and their total amounts on June 30, 1924, and December 31, 1925, are classified by Prof. Charles Rist under three heads as follows:

(In millions of francs)

	1924 June 30	1925 Dec. 31
Perpetual and long term .	254,125	160,716
Short term	36,819	36,481
Floating Debt	90,347	93,787
	281,291	290,883*

STATEMENT OF FLOATING DEBT

The perpetual and long term debts consist mainly of government bonds (rentes) and the capitalized value of certain annuities running for an indefinite period and bearing interest at the rate of from 3 to 5 per cent. The short-term debt consists of Treasury bills running from 5 to 10 years and National Defense bonds running for a similar period. Of the 93,787,000,000 paper francs which make up to total of the floating debt, about 88 per cent is in the form of one year bills, about 6 per cent consists of obligations running for six months and the remaining 6 per cent is in the form of one month obligations. This makes it necessary for the government to renew frequently its floating debt or to refund it into long or short term obligations. The Floating Debt is made up of the following obligations:

Ordinary Treasury bills;
National Defense bills;
Advances of the Bank of France
Advances of the Bank of Algeria;
Special funds from the general treasury;
Sundry special current accounts;
Other deposit accounts of the Treasury.

ADVANCES OF THE BANK OF FRANCE

Of the greatest significance to the present currency crisis are the advances to the government by the Bank of France. These advances are in the form of bank notes fresh from the printing press and they circulate throughout the country as ordinary currency. During the war the government resorted to this type of inflation whenever it was hard pressed with obligations which demanded immediate payment. In order to protect its gold the Bank of France suspended specie payments at the very beginning of the War. Otherwise there would have been danger of the complete depletion of the metallic reserve.

FALSIFICATION BY BANK OF FRANCE

The advances from the Bank of France increased rapidly from the beginning of the war until by the end of 1920 they stood at 26,600,000,000 francs. The deflation of 1921 followed by a depression in 1922 brought about a liquidation of a small amount of the advances during the next few years and the belief became general that the period of inflation had ended. This belief received a rude shock early in 1925 when it was discovered that between January 3 and April 25, 1925 under the government's urgent need for funds the records of the Bank of France had been falsified in order to issue notes to the government in excess of the legal limit. The revelation of this deception was a serious blow to the public confidence in an institution the integrity of which had never before been called in question. The total amount of the advances to the government by the Bank of France on July 1, 1926 amounted to 37,350,000,000 francs, an increase of 9,650,000,000 francs over the amount on July 2, 1925 and an increase for the week between June 23 and July 1 of 750,000,000 francs.*

FRENCH BANK NOTE INFLATION

In addition to the demand for currency on the part of the government the increased volume of business and rapidly rising prices brought an increased demand for currency in order to finance the requirements of business. The extent of the bank note inflation can be seen from the fact that in 1914 the note issues of the Bank of France amounted to 10,042,000,000 francs. On June 9 of this year the total note issues of the Bank of France reached 53,353,000,000 francs. This includes the advances to the government as

*Doubtless due to a typographical error under the first item in Prof. Rist's statement of the perpetual and long term debt there is an error of 17 billion francs. The figures quoted above have been corrcted accordingly.—Revue d'Economie Politique, Mars, Avril, 1926.

*Statement of Bank of France, "Commercial and Financial Chronicle."

well as for commercial purposes. The volume of bank notes in circulation has increased by about 9 billion francs within the last year.†

GOLD RESERVE OF BANK OF FRANCE

The total amount of specie in the Bank of France has increased slightly since the war. On June 9 of this year the total metallic reserve amounted to about 4,584,000,000 fıancs. This is a ratio of only 8½ per cent to the outstanding note issue of 53,353,000,000 francs. For many decades before the war the Bank of France maintained a specie ratio of more than 80 per cent to the outstanding note issue. In 1913, the specie held by the Bank of France amounted to about 70 per cent of the outstanding notes. Although the present gold reserve of 4,584,000,000 francs is a small ratio of the huge volume of outstanding notes it is a relatively large amount in relation to the normal bank note issue and may be a very important factor in future attempts to stabilize the currency. A revaluation of the franc at a 3 cent gold parity would give a specie ratio of more than 55 per cent to the outstanding note issue.

THE RISE IN PRICES

The inflation of the currency and the fall in the exchange value of the franc has naturally been accompanied by a tremendous rise in prices, but the internal price level has not risen in proportion to external prices and the fall of exchange rates. The official index number of wholesale prices for March, 1926 showed a rise in wholesale prices of 730 per cent above the level in 1913, the index number of retail prices in Paris stood at 451 per cent of its 1913 level and the index number of the prices of foodstuffs in Paris had risen to 497 per cent of its 1913 level. These figures would seem to indicate, as J. M. Keynes suggests, that "the inflation of the currency has produced its full effect on the exchanges, and consequently on the prices of imported commodities, but has largely failed to do so on the prices of home produce."* The index numbers of wholesale prices are greatly influenced by the prices of imported commodities while the retail food prices reflect more clearly the level of internal prices. The reasons for this lag in the internal price level are given by Mr. Keynes under the following heads:

"(1) the time element—internal prices move slowly but will move as they should in time; (2) the hoarding of bank-notes on an even greater scale than formerly, leading to a sluggish circulation of the available currency; (3) excessive foreign investment by Frenchmen, due to lack of confidence, which drives the exchange down below the figure appropriate to the trading position; and (4) the legal restrictions on rents, etc."

THE BALANCE OF TRADE

Before the war France regularly had an apparent adverse balance of trade, but her income from "invisible items" *e. g.*, interest on investments abroad, shipping and tourist's expenditures gave her a favorable balance on the ledger of international accounts. Since 1913, however, a net accumulation of foreign investments of 38 billion gold francs has been wiped out and replaced by a net commercial indebtedness of about 6,000 billion gold francs. In addition to these commercial obligations are the "political" debts, the payments on which will have to be taken into account in the future. Thus it is reasonable to assume that the present favorable balance of payments is likely soon to be reversed. In 1924 and 1925 the favorable balance of trade amounted to about 1,500,000,000 francs each year. This has been due to the simple fact that the falling exchange has made France a "cheap" market in which to buy. The first three months of 1926 showed a small adverse balance of trade. This unfavorable showing may be more apparent than real, due to recent French legislation aimed at the flight of capital, the net result of which has been to cause many French exporters to falsify their bills of lading in order to leave abroad a certain portion of the purchase price of their goods.

THE ILLUSION OF REPARATIONS

Although French financial conditions have steadily approached a crisis, successive French Ministries, aside from voting increases in taxation from time to time, have been exceedingly reluctant to make a positive attack upon the problem. Previous to

*The New Republic, January 29, 1926.

†The statement of the Bank of France for the week ending July 8 shows an increase in the total amount of the note circulation of 947,689,000 francs bringing the total note issue up to 54,861,926,850 francs as compared with 44,493,751,250 on July 9 a year ago. The advances to the state increased by 350,000,000 francs during the week bringing the total up to 37,700,000,000 as compared with 27,400,000 on July 9, 1925.

the election of May, 1924, the general public was little concerned with the financial problem. Flushed with victory in the war and impressed with the language of the Treaty of Versailles which placed sole responsibility upon Germany for causing "all the loss and damage" of the war, the French fell victim to the naive belief that Germany would be compelled to pay the cost of the war and the expenses of reconstruction. The conservative groups which were in control during this period fed the public with extravagant demand upon Germany and meanwhile plunged the nation deeper and deeper into debt. The French were also led to believe that at least a major part of their political debt to Great Britain and the United States would be cancelled.

The invasion of the Ruhr was accompanied by a precipitous fall in the exchange value of the franc and the report of the Dawes Commission destroyed the hope of balancing the French budget by means of German reparations. Consequently, the radical groups under the leadership of M. Herriot came to power in the election of May, 1924, on a program of financial reconstruction. The appointment of M. Clémentel, formerly President of the International Chamber of Commerce, to the finance portfolio and the negotiation of a 100,000,000 dollar loan from the house of Morgan temporarily restored confidence. But in spite of the increased returns from taxation the Herriot government was soon forced to resort to inflation by securing additional advances from the Bank of France. The falsification of the records of the Bank of France early in 1925 in order to issue notes to the government in excess of the legal limit caused the collapse of the Herriot Cabinet.

THE COMMITTEE OF EXPERTS

The first significant attempt to deal with the financial crisis was the appointment of the Committee of Experts in May, 1926. This committee was appointed by M. Péret and is similar to the Cunliffe Committee appointed in England after the war to study the currency question and prepare plans for the restoration of the gold standard. M. Sergeant, the chairman, was Financing Officer of the Treasury and is now Chairman of the Banque de l'Union Parisienne, and an honorary deputy-governor of the Bank of France. The Committee is composed of leading bankers and economists. The Committee made a preliminary report on July 3, 1926 but the full text of their proposals have not yet been made available here. A news dispatch to the New York *Times* for July 4 summarizes the proposals of the Committee as follows:

1. Improvement of the taxation system so as to give a quicker and larger return and to provide about four billions in new revenue.
2. Energetic compression of State expenditure.
3. Cessation of the system of advances from the Bank of France to the State to cover new expenditure. That is to say, the prevention of any further inflation.
4. A gradual reduction of the advances of the Bank to the State, so as to strengthen the bank note cover.
5. Relief of the Treasury and a return to its normal functioning by the reorganization of a large part of the floating debt and its administration by a separate sinking fund.
6. Voluntary effort at the consolidation of the short-term National Defense and Treasury bonds.
7. The realization as soon as possible, with the aid of the Bank, of monetary stability.
8. Preparation for the return of capital, for which purpose it will be necessary to contract long term loans in foreign values and to obtain credits abroad.
9. Drafting an economic policy which will prevent in some measure inevitable difficulties which will attend a return to sane money.

In a footnote the committee adds that full warning must be given to the country that a restoration of the national finances will be accomplished by difficulties and suffering, but that any delay will only serve to aggravate them.

THE KEYNES ANALYSIS

Because of its intimate bearing upon international political and economic relations the French financial problem has been the subject of considerable international study and a number of English and American economists have analyzed the problem and

suggested plans for stabilizing the French currency.

Mr. J. M. Keynes in an article in the *New Republic* for January 27, 1926, which takes the form of "An Open Letter to the French Minister of Finance (Whoever he is or may be)" points out the importance of the relationship between the internal and external price levels and suggests a plan for repudiating a large part of the internal debt by a further rise in internal prices as a way out of the French financial difficulties. The essential features of Mr. Keynes analysis follows:

There are two methods of attaining the desired financial stability—either by an increase in the burdens of the taxpayer, or by a diminution of the claims of the rentier. A further increase in taxation is politically inexpedient, and even if it were politically feasible it would break down administratively. "The pressing task of the French Treasury is not to devise additional taxes, but to construct an administrative machine capable of collecting those taxes which exist." The alternative therefore, is "to consider coolly how best to reduce the claims of the rentier." Mr. Keynes presents three alternatives: first, a general capital levy; second, a forced reduction of the rate of interest on the public debt; third, "a rise in prices which would reduce the real value of the rentier's money claims." (This has been in large part already accomplished.) For reasons largely political Mr. Keynes would choose the latter alternative — a further rise of internal prices.

Mr. Keynes points out that although internal prices have risen, they have not risen in proportion to the rise of external prices and the falling exchange value of the franc.* "The burden of the rentier on the taxpayer is measured by the internal purchasing power of the francs which have to be taken from the latter to be given to the former. Thus if internal prices had risen as fast as the exchange has fallen, the real burden of the national debt service would be reduced by at least a third." In order to accomplish this rise in internal prices and at the same time stabilize the exchange Mr. Keynes suggests the following plan:

> "It is for you to decide in your own mind at what level of internal prices you can hope to balance your budget. Your next step must be to bring about this rise in as orderly and scientific a way as you are able. Looking from outside it appears to me that an internal price level between eight and nine times pre-war might be high enough. In this case there is no justification for any considerable further inflation or fall in the franc exchange. All you have to do is to stabilize the note circulation and the franc-exchange at near their present level and to allow time for internal prices to rise correspondingly.
>
> "How to stabilize the franc exchange? Not so difficult as it is supposed to be. The balance of trade is strongly in favor of France. The present level of internal prices encourages exports and discourages imports. The metallic reserve of the Bank of France is worth (at the present exchange) nearly 40 per cent of the note issue. Nothing is required, I expect, but that the Bank of France should declare that for two years at least it will furnish dollar exchange against francs in unlimited amounts on terms *not worse* than some stated rate between dollars and francs, and that the Bank should be prepared, if necessary, to use its gold for the purpose. The rate selected should probably lie somewhere between one dollar for twenty-five francs and one dollar for thirty francs, and it would be safer to choose the latter ratio at first, with just a hope that the former might be achieved in the end. The success of the scheme requires no more than that the Bank's undertaking should be believed. With this background of stability you will be able to borrow enough to carry you through the transitional period without further inflation."

B. M. ANDERSON'S ANALYSIS

Mr. B. M. Anderson, Jr., Economist for the Chase National Bank, in the Chase Economic Bulletin for June 21, 1926, is more hopeful than most foreign observers. His summary of the present financial situation is as follows:

> "In summary, the great break in the franc has already solved the major financial problems of France. (1) It has made the debt burden bearable. (2) It has helped bring about budgetary balance. (3) It has placed the Bank of France in a strong reserve position. (4) It permits France to look forward to a further period of rising prices during which business will be good and the consolidation of the public debt can easily take place. The time is opportune for a definite stabilization by the immediate resumption of the gold standard at a new par. This stabilization itself, accompanied by a skillful technical handling

*"In December, 1925 the gold value of the franc on the foreign exchanges was 19 per cent of its pre-war parity; world gold prices were about 158 per cent of their pre-war level; therefore on the pre-war basis a note-circulation and a franc-price level amounting to 830 per cent (for 158 ÷ 19 = 8.3) of their pre-war figures would be justified. Now the note circulation being about 1,000 per cent of its pre-war figure, roughly corresponds to the level of the exchange—though, allowing for increased territory and the loss of gold and silver coin from the circulation, it is probably still too low in relation to the exchange, rather than too high, on a pre-war comparison."

of the State finances will straighten out the whole situation without further drastic sacrifices on the part of anybody. The sacrifices have already been made in the decline of the franc."

Mr. Anderson would have the value of the franc stabilized with reference to the following four factors: "(1) The ratio of gold reserves to the notes of the Bank of France; (2) the relation of French prices in paper money to the level of gold prices in the world outside; (3) current and recent exchange rates; (4) most important, the relation of the public debt to the total national wealth of France." The manner of accomplishing this Mr. Anderson makes clear in the following statement:

"The relation of the public debt to the total national wealth suggests the following considerations. Taking the national wealth at 300,000,000,000 gold francs, old par, and the internal debt at 309,000,000,000 paper francs and the external debt at 23,000,000,000 gold francs (assuming the expected reductions through the pending debt settlements), we find that if the debt is to bear a ratio of 23 per cent to the national wealth, the franc must be placed at 3 cents. If the debt is to bear a ratio of 26 per cent to the national wealth, the franc must be placed at 3½c. If it is felt that France could carry on a debt ratio of 29 per cent to the national wealth, then the franc should be placed at 4c.

"From the standpoint of the relation of French prices to prices in the world outside, a 3c. franc is very low. French commodity prices have been rising rapidly, following the fall in the franc, but they have not nearly caught up with the exchange depreciation. They stood at 664 per cent of 1913 prices at the end of April and at 702 per cent of 1913 prices at the end of May. The average of gold prices for the United States, Great Britain, Sweden, Holland, and Switzerland stands around 148 per cent of 1913 prices. The following table shows the extent to which *external* wholesale prices in France would have to rise to catch up with the world gold level if the franc is stabilized at various figures."

Cents per Franc	French Wholesale Prices 1913=100
4	714
3¾	762
3½	816
3	952

SUMMARY OF THE PROPOSALS

Until the full report of the Experts' Committee has been made available it is obviously impossible to draw any accurate conclusions regarding the various recommendations which have been proposed. Mr. Keynes and Mr. Anderson, however, agree upon certain essential points. The points of their agreement are:

(1) That France cannot hope for financial stability until the budget is balanced; (2) that in order to balance the budget, a repudiation of a large part of the domestic debt is necessary; (3) that a new parity must be fixed for the franc; and that the exchange must be stabilized at this new parity by the use of the gold reserve and a return to the gold standard.

Mr. Keynes and Mr. Anderson would accomplish the repudiation of a large part of the domestic debt by a further increase in prices. Mr. Anderson points out that a large part of the debt has already been repudiated, and that the need of the moment is to stabilize the exchange at a new parity by the use of the gold reserve. The objection which might be raised against these proposals is the danger in allowing the rise in prices to get beyond control. If prices continue to rise, it is not clear that the government revenues will increase at such a rate as to overtake expenditures, and if this does not happen the government will be forced to go to the Bank of France for more bank notes—which means further inflation, a further rise in prices and a continued fall in the exchange.

INTERNATIONAL ASPECTS OF THE FRENCH CRISIS

Because of its bearing upon French credit abroad and its relationship to France's capacity to pay her foreign obligations, the French financial crisis has become the subject of serious international concern. The execution of any plan for the stabilization of the currency and a return to the gold standard is contingent upon the securing of additional foreign credit to protect the domestic gold reserve. It is extremely doubtful, however, if further loans will be forthcoming before the debt funding agreements with England and the United States have been definitely ratified and a program for a return to stable monetary conditions has been undertaken. That the French government is aware of this aspect of their problem is evidenced by the negotiation of an admittedly unsatisfactory debt settlement with the United States and the recent report of the Experts' Committee in

recommending the immediate ratification of the pending agreements with England and the United States.

AMERICAN LOAN POLICY

The presence in France of Mr. Benjamin Strong, Governor of the Federal Reserve Bank of New York and Mr. Montague Norman, Governor of the Bank of England, and their frequent conferences with officials of the Bank of France and French political leaders suggests that whatever measures are undertaken to stabilize the currency will have at least the moral support of financial leaders in England and the United States. Although no direct statement of the official attitude of the American government with respect to the further extension of credit to France has been made, the policy of the United States is fairly clear. At a conference in the summer of 1921 between President Harding, certain members of the Cabinet and a number of American investment bankers, and later by a direct announcement of the State Department in May, 1922, the government requested American bankers to supply the State Department with adequate information of all transactions in foreign loans before their consummation in order that the State Department might express itself regarding them. The Treasury Department later made known the desire of the government that no loans be made to those countries that owed unfunded debt obligations to the United States. The ratification of the pending debt funding agreement by the French Parliament would doubtless remove any official objection to further extensions of credit to France and the granting of future loans would be left to the judgment of private American bankers upon the basis of the risk involved, the profitableness of the transaction, and the ability to float the loans in the American security market.

THE BERENGER AGREEMENT

The official appraisal of the capacity of France to pay her obligations to the United States is embodied in the Berenger debt funding agreement with the United States. This agreement provides briefly for the payment to the United States over a period of 61 years of a capitalized debt of $4,025,000,000 in annual installments beginning at 30 million dollars in 1926 and increasing to 35 million in 1930, and then beginning again by the payment of $1,350,000 in 1931 and continuing to increase year by year up to the amounts of 116 million and 113 million dollars in 1986 and 1987 respectively, at which time the agreement terminates. The bonds issued by France under this agreement will bear interest at the rate of 1 per cent for the first decade after 1930, at 2 per cent for the following decade, at 2½ per cent for the following eight years, at 3 per cent for the next seven years and at the rate of 3½ per cent after 1965.

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